MEC

MONGOLIA ENERGY CORPORATION

蒙 古 能 源 有 限 公 司

Incorporated in Bermuda with limited liability

Stock Code: 276

Energy Resources Developer

Interim Report 2014

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements and opinions with respect to the operations and businesses of MEC. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations, and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will, or other results of actions that may or are expected to occur in the future. You should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this Report. These forward-looking statements and opinions are based on MEC's own information and on information from other sources which MEC believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. You should also read the risk factors set out in our circulars, announcements, and reports for each of the transactions, which are deemed to be incorporated in and form part of this document and as qualification to the statements relating to the relevant subject matters. Neither MEC nor any of its directors or employees shall assume any liability in the event that any forward-looking statements or opinions does not materialize or turns out to be incorrect. Subject to the requirements of the Hong Kong Listing Rules, MEC does not undertake to update any forward-looking statements or opinions contained in this Report.

CONTENTS

The Washing Plant in Xinjiang China

Mongolia is an independent country located in east and central Asia, bordering Russia to the north and China to the south, east, and west. In terms of volume and variety of mineral resources, Mongolia ranks among the richest countries, possessing prospected deposits of ferrous, non-ferrous, rare, and precious light metals as well as rare earth elements. There are also numerous deposits of non-metallic minerals and fossil fuels. The most important minerals in terms of economic value are copper, molybdenum, fluorite, coal, gold, and rare elements.

(Source: Government of Mongolia)

Khushuut Coal Mine

Local road, Uyench canyon

Local road, Bodonch road

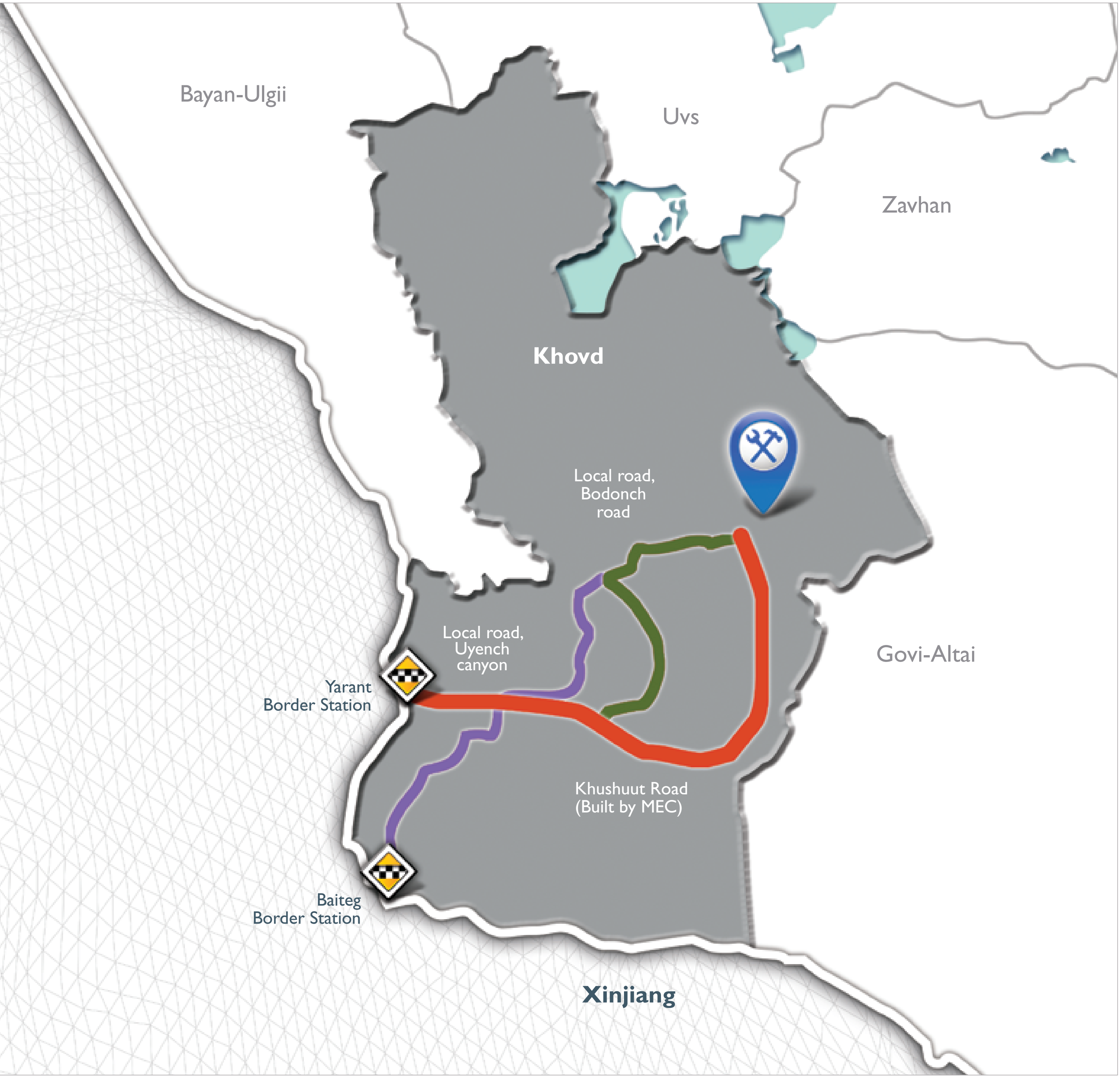
Khushuut Road (Built by MEC)

Border station

Country boundary

Province boundary

Lake


Bayan-Ulgii
Uvs
Zavhan
Khovd
Local road,
Bodonch
road
Govi-Altai
Local road,
Uyench
canyon
Yarant
Border Station
Khushuut Road
(Built by MEC)
Baiteg
Border Station
Xinjiang

Chairman's Report

Dear Shareholders,

On behalf of the board of directors (the "**Board**"), I hereby present the interim results of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") for the period ended 30 September 2014 (the "**Financial Period**") as follows:

OVERVIEW

Our principal project is the Khushuut Coking Coal Project in Western Mongolia.

During the Financial Period, we remained focused on optimizing our coal production process and enhancing coal quality to make preparation for our coal production by the end of this year. The installation of main operative part of the washing plant in Xinjiang was completed during this period and is under test runs.

We have gained the continuing financial support from our convertible noteholders by entering into three subscription agreements with them in September. By eliminating the short term financial pressure, we could concentrate our resources in the development of our Khushuut Coking Coal Project.

RESULTS ANALYSIS

Revenue

During the Financial Period, the Group did not undergo any commercial operations, thus there was no recognition of revenue (2013: HK$0.5 million) and cost of sales (2013: HK$0.5 million).

Other Expenses

The commercial coal production of the Khushuut Coal Mine came to a halt since October 2012, thus all related expenses incurred in the Khushuut Coal Mine of HK$31.6 million (2013: HK$24.6 million) for the Financial Period were grouped under other expenses.

Administrative Expenses

The administrative expenses reduced by around 39% to HK$65.6 million (2013: HK$107.7 million) were mainly due to the following reasons:

(i) A reduction of staff costs due to no equity-settled share-based payment relating to share options granted by the Company during the Financial Period (2013: HK$13.4 million); and

(ii) In 2013, a one-off PRC property tax liabilities, penalty and surcharge for late payment relating to the disposal of a PRC investment property for approximately HK$6.6 million.

Impairment Loss on Exploration and Evaluation Assets

As disclosed in the announcement of the Company dated 30 May 2014, the Group intended to dispose of an exploration concession in Western Mongolia for ferrous resources. Up to the date of this report, no potential purchaser of this exploration concession had been identified. The development of the iron mine has not been started with only a limited exploration work has been done. The condition of the iron ore market in China has become unfavorable due to the significant drop on iron ore prices and the continuing fall on demand. In view of the present market sentiment, the development and production costs are expected to be high which will unlikely to achieve a positive return for the Group. Further, the exploration and the ongoing development of the iron mine would require additional capital by the Group and increase the Group's financial pressure in addition to the need for its coal mining business. Based on the aforesaid, the management is of the view that it is not the Group's interest to develop and retain the iron mine. In view of the pessimistic business outlook of the iron ore industry and there are minimal transactions in the market in Mongolia for iron ore concessions due to the fact that current market conditions are making it uneconomic for market participants to invest in smaller iron ore concessions, the management believed that it would be difficult to identify a potential purchaser to acquire the iron ore concession that is subject to the Mining Prohibition Law of Mongolia, before the exploration license expires in October 2015. The management has therefore determined that the recoverable amount of this iron ore exploration concession to be minimal and the entire amount was impaired during the Financial Period.

Impairment Review on Khushuut Related Assets (the "Mine Assets")

An impairment review was undertaken at the end of the Financial Period. By reference to a report prepared by an independent valuer, no impairment loss was required during the Financial Period. Same as previous years, the independent valuer adopted a value-in-use calculation approach to obtain the fair value of the Mine Assets as at 30 September 2014 and the major changes comparing to previous valuation as at 31 March 2014 were:

(i) The discount rate was 17.21% (At 31 March 2014: 18.5%). The decrease as at 30 September 2014 was due to the slight improvement in market environment which reduced the related risk premium; and

(ii) Estimated production costs were revised downward based on the latest information.

The Company believes that the estimates/assumptions applied in the assessment of recoverable amount by the independent valuer are reasonable. However, these estimates/assumptions are subject to significant uncertainties and judgments. The Company has made its best estimates of all relevant factors to be included in the value-in-use model based on the current available information. However, it is possible that the underlying estimates/assumptions can be changed significantly and further impairment charges/reversal of charges may be required in future period.

Finance Costs

According to the Company's accounting policy, finance costs arising from convertible notes are charged at effective interest rate on the debt component of respective convertible notes. The Company's default on redemption of the OZ Convertible Note in November 2013 triggered the Company's early redemption obligation under the 3% CTF Convertible Note and 5% GI & CTF Convertible Notes. Accordingly, these convertible notes had been re-measured to their redemption amount and thereafter all related interest costs are being charged at respective coupon rate instead of respective effective interest rate. During the Financial Period, the interest costs in respect of all defaulted and unexpired convertible notes were charged at coupon rates within the range of 3% to 5% (2013: Effective interest rate within the range of 14.38% to 18.22%). This accounted for the dropped in finance costs during the Financial Period.

MARKET REVIEW

The principal market for our coal products is the People's Republic of China ("**China**" or the "**PRC**").

China's economy continues to be affected by the global economic climate and its internal factors. According to the National Bureau of Statistics of China, gross domestic product ("**GDP**") of China for the third quarter, covering the three months from July to September 2014, revealed that the Chinese economy grew at a rate of 7.3% year-on-year, while figures from earlier this year showed that the Chinese economy grew 7.4% and 7.5% in the first and second quarter respectively. The World Bank indicated that the GDP growth of China would slow down in 2014 to 7.4% from a previous estimate of 7.6%. Nevertheless, the Chinese officials have said China would launch major investment projects in information networks, environmental protection, infrastructure sectors, and the fiscal and monetary policies would be kept flexible to support its economy.

Steel makers in China are the key consumers of coking coal. In line with the weak global economy, according to the data available from the World Steel Association, global steel production increased 2.1% to approximately 1,231 million tonnes in the first nine months of 2014, which China accounted for approximately 50% of the total at 618 million tonnes, a slight increase of 2.3% year over year. However, the steel usage in China is expected to cool down and rise only 1% in 2014, while declining further to 0.8% growth in 2015.

China's coal import was affected by the sluggish performance of the steel industry. According to the data from the General Administration of Customs of China, China's coal imports, including lignite, thermal and metallurgical coal, totalled 21.16 million tonnes in September 2014, rising 12.20% from a twenty-three-month low in August but down 17.76% year on year. The good news is that the price of coking coal is showing sign of stability due to recent increase in demand of steel makers as a result of the uptick in steel price. Mongolia still remains the second largest supplier of coking coal import to China.

Chairman's Report (Continued)

The China-Mongolia diplomatic relationship has been substantially enhanced after the visit of the President of China to Mongolia in August this year. The visit has promoted the relationship between the two nations to a new historical height and is embracing greater opportunities for development. Host of co-operation documents had been signed between the two nations covering mainly three fields: mineral resources exploration, infrastructure and finance. We anticipate the co-operation will enhance and increase the coal trade between the two nations which we will benefit ultimately.

BUSINESS REVIEW

Coal Sales and Operation

During the Financial Period, there was no raw coking coal sold due to our coal production halt.

Coal Processing Infrastructures

During this period, we remained focused on optimizing our coal production process and enhancing coal quality by the erection of a dry coal processing plant in the Khushuut Coal Mine and building of a coal washing plant in Xinjiang, the PRC.

The On-site Dry Coal Processing Plant

The building of the dry coal processing plant (DPP) has been completed. The remaining ancillary work was the building of a dust and wind protection wall around the DPP.

The purpose of the dust and wind protection wall is to control the wind flow around the coal yard so that the amount of airborne dust is reduced during coal processing. It is 12 meters tall, around 1,160 meters long, and will be built around three sides of the DPP in Khushuut. The erection of the dust and wind protection wall was completed in November 2014.

The operation of the DPP under the test runs was satisfactory.

Coal Washing Plant in Xinjiang

In September 2014, installation of all processing equipments of the coal washing plant were completed. We conducted a series of test runs in September immediately thereafter. All civil construction works were completed in October 2014. For this purpose, we exported approximately 3,200 tonnes of raw coking coal from our Khushuut Coal Mine to Xinjiang for trial testing at the end of September 2014. The results of the test runs for the coal washing plant have been satisfactory so far.

These coal processing infrastructures will complement our coal production process and enhance the coal quality as and when we resume production. If everything runs smooth, these infrastructures will formally put into operation upon coal production.

Mining and Other Contractors

We appointed an overburden removal contractor in April 2014 and a coal extraction contractor in July 2014 to prepare for our coal production by the end of the year. The overburden removal contractor is principally required to provide blasting, removal of topsoil and overburden covering the coal to be extracted for the subsequent coal mining to take place. The principal job of the coal extraction contractor is to provide coal extraction services after the coal seam is exposed. It also provides loading and haulage of extracted coal services at the mine site. Both contractors are now working at the Khushuut Coal Mine in preparation of the forthcoming full scale commercial export. In September, approximately 570,000 bank cubic meters (bcm) of overburden had been stripped by the overburden removal contractor and 140,000 tonnes of raw coal had been extracted by the coal extraction contractor.

Apart from these field work contractors, we have also appointed five external coal trucking companies with a total of over 120 heavy-duty trucks to provide coal transportation services for our coal export.

Other Site Constructions and Preparations

Yarant Border Area Preparation

The Mongolian customs requested us to build certain minor facilities including a disinfection tank, an inspection platform, and to improve section of the road at the Mongolian Yarant border to prepare for the forthcoming export of coal. We appointed our coal extraction contractor to carry out these additional works and it had completed building the disinfection tank, the exit road enhancement works and the inspection platform at the end of September 2014. MoEnCo could use these complemented facilities to facilitate the traffic flow and improve the export process in coal export.

Khushuut Road

Rain storm had caused damages to different sections of the 311 km Khushuut Road at the end of June 2014. The road repairing works to fix these damages was commenced in September 2014 and we expect to complete by the end of this year. Apart from the road repairing works, we had engaged a contractor to provide road clearing and maintenance services for the Khushuut Road during winter season.

Customers and Sales

Due to our continued halt of coal production, we did not actively market for new customers during the Financial Period. Although we have not looked for new customers, we proactively liaised with our existing customer regarding our preparation progress.

Licences Matters

We continued to adopt prudent expenditure policy and had returned 10 non-potential exploration and mining licences to the government of Mongolia during the Financial Period. The giving up or return of these licences will not have any material impact on the Group's financial condition and results of operation.

As disclosed in our announcement dated 30 May 2014, we planned to dispose of exploration concession for ferrous resources in Bayan-Ulgii. Up to the date of this report, no potential purchaser of this concession had been identified, and we will continue to look for a potential purchaser. As at 30 September 2014, an impairment loss was recognised in respect of this exploration concession. Please refer to the paragraph of Results Analysis for detailed information.

Chairman's Report *(Continued)*

Legal and Political Aspects

During the Financial Period, the government of Mongolia continued to roll out its reforms with a view to reversing certain legislative enactments that had dampened effect on the confidence of foreign investors. Apart from the notable Investment Act which came into force on 1 November 2013 and a number of other enactments, the Mongolian government amended its Minerals Law on 1 July 2014 to provide a more stable investment environment for investors in the mining sector.

The amendments to the Minerals Law (the "**Amendments**") bring about the following changes, among others, to improve the existing legal framework relating to mining:

(a) A mineral deposit having a potential impact on the economic and social development of Mongolia or one of its regions would have the possibility of being determined as a "mineral deposit of strategic importance". Such classification would allow the Mongolian government to participate in certain percentage of ownership in the deposit. Under the Amendments, mineral deposits which are influential at regional level are removed from the scope of "strategic deposits", leaving only those deposits with national significance. This change has made the definition of strategic deposits clearer and restrictive. In this regard, our Khushuut deposit is less susceptible to be determined as a "strategic deposit" in the future;

(b) The interim moratorium for not granting new exploration licences was lifted. The Mongolian government will start to grant new exploration licences again to investors interested to pursue exploration activities in Mongolia; and

(c) The maximum area which may be licensed under a single exploration licence was reduced from 400,000 to 150,000 hectares. In addition, an exploration licence (save for those licences for radioactive minerals) which used to have a life span of nine years (a three-year term which could be extended for two times), may now be extended for three times, meaning that an exploration licence may have a total duration of twelve years. We anticipate such move will enable more investors to participate in the stagnant mineral sector.

The changes under the Amendments are expected to boost foreign and domestic investments. These demonstrate the determination of the Mongolian government to restore confidence of investors in the mining sector.

Disputes with Contractors

With Leighton

Two writs of summons were taken out by Leighton in 2013 claiming the Company for MNT12.2 billion (Mongolian Tugrik) (approximately HK$57.3 million) and MNT7.7 billion (approximately HK$36.4 million) respectively.

In September 2013, we received the mediation notices from Leighton. According to these notices, Leighton proposed a stay of proceedings pending the mediation. The mediation has yet to proceed. We have recently received a notice of intention to proceed from the legal representative of Leighton. Apart from this, there is no development.

With a Xinjiang Contractor

MoEnCo used to have a Chinese contractor (SJ) in Xinjiang, PRC, to provide coal washing and blending services for MoEnCo in the form of co-operation for three years. The contract was signed by MoEnCo and SJ in June 2012 and the purpose was to improve the unsatisfactory coking coal delivered to and sat in Xinjiang by blending our coal with SJ's. The blended products would then subsequently be washed for sale in Xinjiang.

SJ terminated the co-operation and lodged an arbitration application against MoEnCo and the Company for a claim of approximately RMB32 million (approximately HK$40 million), being refund of the payment it made in advance on behalf of MoEnCo (mainly tax, levy, and other costs incurred in the PRC) and loss of profit, and interest, etc. for breach of contract. The payment made in advance in the amount of approximately RMB11 million (approximately HK$13.7 million) had been provided for in our consolidated financial statements.

The arbitration was initially heard in November this year and it has been adjourned for a date to be fixed.

Others

Capital Reorganisation

On 19 September 2014, the Board proposed a capital reorganisation ("**Capital Reorganisation**") comprising:

(i) share consolidation whereby every four issued existing shares of the Company of par value of HK$0.02 each would be consolidated into one consolidated share of par value of HK$0.08 each ("**Consolidated Share**");

(ii) capital reduction whereby the par value of each issued Consolidated Share would be reduced from HK$0.08 to HK$0.02 by cancelling the paid-up capital to the extent of HK$0.06 on each issued Consolidated Share and any fractional Consolidated Share in the issued share capital of the Company arising from the share consolidation would be cancelled ("**Capital Reduction**");

(iii) share premium reduction whereby the entire amount standing to the credit of the share premium account of the Company would be cancelled ("**Share Premium Reduction**");

(iv) transfer of the credit arising from the Capital Reduction and the Share Premium Reduction to the contributed surplus account of the Company; and

(v) application of the contributed surplus account of the Company to set off the accumulated losses of the Company as permitted by the Bermuda Companies Act and the bye-laws of the Company.

The Capital Reorganisation was effective on 13 November 2014.

Change in Board Lot Size

Apart from the Capital Reorganisation, the Board also proposed to change the board lot size for trading on the Stock Exchange from 1,000 shares to 3,000 shares upon the Capital Reorganisation becoming effective.

Subscription of Convertible Notes

Upon expiry of the our 3.5% GI Convertible Note, 3% CTF Convertible Note and the SF Convertible Notes, we exercised our best endeavour to engage in negotiations with these convertible noteholders for refinancing arrangement and finally reached a mutually acceptable restructuring plan during the Financial Period.

On 19 September 2014, the Company entered into (i) a subscription agreement with Golden Infinity Co., Ltd. ("**GI Subscriber**") pursuant to which the Company conditionally agreed to issue and the GI Subscriber conditionally agreed to subscribe a 5-year 3% convertible note ("**2014 GI Convertible Note**"); (ii) a subscription agreement with Chow Tai Fook Nominee Limited ("**CTF Subscriber**") pursuant to which the Company conditionally agreed to issue and the CTF Subscriber conditionally agreed to subscribe for a 5-year 3% convertible note ("**2014 CTF Convertible Note**"); and (iii) subscription agreements with Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited ("**SF Subscribers**") pursuant to which the Company conditionally agreed to issue and the SF Subscribers conditionally agreed to subscribe for the 5-year 3% convertible notes ("**2014 SF Convertible Notes**") (the subscription agreements together, the "**Subscription Agreements**").

The subscription amounts of the 2014 GI Convertible Note, the 2014 CTF Convertible Note, and the SF Convertible Notes would be used for full settlement and early redemption of the outstanding principal amounts and accrued interest under the convertible notes of the Company.

A special general meeting of the Company was held on 12 November 2014 to consider the Capital Reorganisation, the Subscription Agreements and the whitewash waiver. All the resolutions had been passed by the shareholders at the meeting. The issue of the convertible notes was completed which the 2014 GI Convertible Note, the 2014 CTF Convertible Note, and the 2014 SF Convertible Notes were issued to the relevant holders on 21 November, 2014. The aggregate principal amount of these convertible notes issued is approximately HK$3,467.0 million.

FINANCIAL REVIEW

1. Liquidity and Financial Resources

During the Financial Period, the Group's capital expenditure and working capital were funded by short term loans granted by Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), chairman of the Company.

The borrowings of the Group as at 30 September 2014 comprised convertible notes, advances from Mr. Lo and other financial liabilities amounting to HK$4,415.4 million (At 31 March 2014: HK$4,040.7 million) and all these borrowings were current liabilities.

As at 30 September 2014, the cash and bank balances were HK$44.3 million (At 31 March 2014: HK$48.6 million) and the liquidity ratio was 0.03 (At 31 March 2014: 0.03).

The Group had net current liabilities of approximately HK$4,513.4 million as at 30 September 2014. In order to address the liquidity issues, the Group had engaged in debt restructuring discussion with various convertible noteholders and other loan providers ("**Existing Lenders**") during the Financial Period. After the Financial Period, the Company and Existing Lenders entered into subscription agreements to which the Company agreed to issue and the Existing Lenders agreed to subscribe for new 5-year 3% convertible notes to replace their outstanding principal amounts and any outstaying accrued interests as at the completion date of these subscription agreements. All the subscription agreements were completed on 21 November 2014 and the aggregate principal amounts of these new 5-year 3% convertible notes were HK$3,467.0 million. Apart from the debt refinancing, Mr. Lo continues to offer his financial support to the Group during and after the Financial Period.

Accordingly, the Directors of the Company are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future and the reasons are further explained in Note 1 to the condensed consolidated financial statements.

2. Investment in Listed Securities

As at 30 September 2014, the Group's held-for-trading investments comprised of equity securities listed in Hong Kong with fair value of HK$59.9 million (At 31 March 2014: HK$56.3 million).

3. Charge on Group's Assets

There was no charge on the Group's assets as at 30 September 2014 (At 31 March 2014: Nil).

4. Gearing Ratio

As at 30 September 2014, the gearing ratio of the Group was 0.56 (At 31 March 2014: 0.50) which was calculated based on the Group's total borrowings to total assets.

5. Foreign Exchange

The Group mainly operates in Mongolia, Hong Kong and Mainland China. The Group's assets and liabilities are mainly denominated in Mongolian Tugrik, Hong Kong dollar, Renminbi and United States dollar. The Group does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

6. Contingent Liabilities

The details of the Group's contingent liabilities as at 30 September 2014 are disclosed at Note 18 to the condensed consolidated financial statements.

Chairman's Report *(Continued)*

OUTLOOK

After the appointment of our field contractors, they have been working in full gear and tirelessly for our Khushuut Coal Mine. We are engaged in the test running of our coal processing facilities in Khushuut and Xinjiang respectively and other production related matters. The test runnings so far met with our satisfaction. All progress of our Khushuut Coking Coal Project is on track as planned.

In order to determine the quality of our coal and the appropriate selling price, in November, we shipped out approximately 15,000 tonnes raw coking coal from our coal mine to Xinjiang and for testing by our customer. Upon customer's satisfaction with the quality of the coal and an agreement on the selling price, we will commence commercial coal export shortly, hopefully to take place before the end of this year.

In respect of the Mongolian investment climate, after years of economic plunging, we have seen the solid determination of the Mongolian government to push its way out by introducing affirmative governmental policy and various positive legislative amendments to galvanize its mining industry. We believe these changes will bring about economic and political stability in Mongolia which will gradually re-attract foreign investors into Mongolia. The continuous improvement has positive impact on the development of our Khushuut Coking Coal Project.

Our principal market is in China. Although being affected by the global economy, we are, however, optimistic that the policies of China will continue to promote its economy and gradually support the recovery of the coking coal market. Xinjiang has abundant coking coal supply either in its area or its vicinity; however, the type of our coking coal is in short supply. Therefore, we have confidence that we will benefit from high demand of the Xinjiang market.

In view of our present progress, including our readiness for commercial coal export, and the favourable economic policy of Mongolia, the support of our convertible noteholders and our shareholders, we are optimistic of our developments.

APPRECIATION

In view of internal and external factors just mentioned, the road ahead is still full of challenges. Nevertheless, during this period, I would like to express my sincere gratitude to all our dedicated colleagues, convertible noteholders and business partners for their non-stop contributions to and indulgence on us. I would also like to thank you, our shareholders, for your ongoing support to us and we look forward to continuing our association in the years to come.

Lo Lin Shing, Simon
Chairman
Hong Kong, 26 November 2014

Corporate Governance and Other Information

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the Financial Period (2013: Nil).

DIRECTORS' INTERESTS

As at 30 September 2014, the interests or short positions of the Directors in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

(a) Long positions in the shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo Lin Shing, Simon ("**Mr. Lo**")	Interest of a controlled corporation/ Beneficial owner/Interest of spouse	1,212,788,301 *(Note)*	17.950%
Ms. Yvette Ong	Beneficial owner	1,090,000	0.016%
Mr. To Hin Tsun, Gerald	Beneficial owner	5,400,000	0.080%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	0.007%
Mr. Lau Wai Piu	Beneficial owner	201,200	0.003%

*Note: Among the 1,212,788,301 shares, 4,960,000 shares represent interest of Mr. Lo on an individual basis; while 1,206,078,301 shares represent interest of Golden Infinity Co., Ltd. ("**Golden Infinity**"). The balancing of 1,750,000 shares represent interest of Ms. Ku Ming Mei, Rouisa ("**Mrs. Lo**"). Accordingly, Mr. Lo is deemed to be interested in the shares in which Golden Infinity and Mrs. Lo are interested by virtue of the SFO.*

(b) Long positions in the underlying shares

Name of Directors	Capacity	Number of shares	Percentage of shareholding
Mr. Lo	Interest of a controlled corporation/ Personal	3,296,990,385 *(Note)*	48.797%
Ms. Yvette Ong	Personal	5,500,000	0.081%
Mr. To Hin Tsun, Gerald	Personal	1,500,000	0.022%
Mr. Peter Pun	Personal	1,500,000	0.022%
Mr. Tsui Hing Chuen, William	Personal	1,500,000	0.022%
Mr. Lau Wai Piu	Personal	1,500,000	0.022%

Note: Among the 3,296,990,385 shares, 3,269,990,385 shares represent interest of Golden Infinity. The balancing of 27,000,000 shares represent interest of Mr. Lo on an individual basis.

Save as disclosed in the section headed "**SHARE OPTION SCHEMES**", as at 30 September 2014, none of the Directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at 30 September 2014, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

Long position of substantial shareholders/other persons in the shares and/or underlying shares

Name of Shareholders	Capacity in which such interest is held	Number and description of shares		Percentage of nominal value of issued share capital
Mrs. Lo	Beneficial owner/Interest of spouse	4,509,778,686	*(Note 1)*	66.747%
Golden Infinity	Corporate	4,476,068,686		66.248%
Dr. Cheng Kar Shun	Interest of a controlled corporation/ Interest of spouse	394,670,000	*(Note 2)*	5.841%
Ms. Ip Mei Hing	Interest of a controlled corporation/ Interest of spouse	394,670,000	*(Note 2)*	5.841%
Dragon Noble Group Limited ("**Dragon**")	Corporate	315,570,000		4.671%
Dato' Dr. Cheng Yu Tung	Beneficial owner/Interest of a controlled corporation	12,915,076,102	*(Note 3)*	191.149%
Chow Tai Fook Nominee Limited ("**CTF**")	Corporate	12,910,076,102	*(Note 3)*	191.075%

Notes:

1. *Mrs. Lo is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 4,509,778,686 shares under the SFO.*
2. *Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon. By virtue of the SFO, he is deemed to be interested in 315,570,000 shares held by Dragon and 79,100,000 shares are owned by Ms. Ip Mei Hing, the spouse of Dr. Cheng Kar Shun.*
3. *Dato' Dr. Cheng Yu Tung is in control of CTF. By virtue of the SFO, he is deemed to be interested in 12,910,076,102 shares held by CTF. 12,910,076,102 shares held by CTF represent 220,000,000 shares and 12,690,076,102 underlying shares.*

Save as disclosed above and those disclosed under "**DIRECTORS' INTERESTS**", the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at 30 September 2014.

SHARE OPTION SCHEMES

Under the share option schemes adopted by the Company on 28 August 2002 (the "**2002 Share Option Scheme**") and 30 August 2012 (the "**2012 Share Option Scheme**") respectively, options were granted to certain Directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK$0.02 each in the capital of the Company. The 2002 Share Option Scheme was expired and terminated on 27 August 2012.

Details of the movement in outstanding share options, which have been granted under the 2002 Share Option Scheme and 2012 Share Option Scheme, during the Financial Period were as follows:

(a) Directors

					Number of shares subject to options				
Name	Date of grant	Exercise price HK$	Exercise period	Vesting period	As at 1 April 2014	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2014
Mr. Lo	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	6,000,000	–	–	–	6,000,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	6,000,000	–	–	–	6,000,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	15,000,000	–	–	–	15,000,000
Ms. Yvette Ong	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	01-09-2011	0.810	01-09-2011 to 31-08-2014	N/A	5,000,000	–	(5,000,000)	–	–
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	5,000,000	–	–	–	5,000,000
Mr. To Hin Tsun, Gerald	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	500,000	–	–	–	500,000
Mr. Peter Pun	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	500,000	–	–	–	500,000
Mr. Tsui Hing Chuen, William	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	500,000	–	–	–	500,000
Mr. Lau Wai Piu	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	500,000	–	–	–	500,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	500,000	–	–	–	500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	500,000	–	–	–	500,000
Sub-total					43,500,000	–	(5,000,000)	–	38,500,000

(b) Employees in aggregate

Name or category of participants	Date of grant	Exercise price HK$	Exercise period	Vesting period	Number of shares subject to options: As at 1 April 2014	Granted during the period	Lapsed during the period	Exercised during the period	As at 30 September 2014
Employees in aggregate (including a director of certain subsidiaries)	09-04-2010	4.110	09-04-2010 to 08-04-2015	N/A	3,300,000	–	(1,000,000)	–	2,300,000
	29-02-2012	0.810	29-02-2012 to 28-02-2017	N/A	42,500,000	–	(20,000,000)	–	22,500,000
	08-04-2013	0.320	08-04-2013 to 07-04-2018	N/A	43,500,000	–	(20,000,000)	–	23,500,000
Sub-total					89,300,000	–	(41,000,000)	–	48,300,000
TOTAL					**132,800,000**	**–**	**(46,000,000)**	**–**	**86,800,000**

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Financial Period.

CORPORATE GOVERNANCE REPORT

The Board recognises the importance of maintaining a high standard of corporate governance practice to protect and enhance the benefits of the shareholders. The Board and the management of the Company have joint responsibilities to maintain the interest of the shareholders and the sustainable development of the Group. The Board also believes that good corporate governance practices can facilitate rapid growth of a company under a healthy governance structure and strengthen the confidence of the shareholders and investors.

During the Financial Period, the Company had applied the principles of and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules on the Stock Exchange, save for the following deviations:

i. Under the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing Non-executive Directors is appointed for a specific term which constitutes a deviation from the code provision A.4.1 of the CG Code. However, they are subject to retirement by rotation under the Bye-laws of the Company. Therefore, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices in this respect is no less exacting than those set out in the CG Code.

ii. Code provisions A.5.1 to A.5.4 of the CG Code require a nomination committee to be set up, chaired by the chairman of the board or an independent non-executive director, and comprises a majority of independent non-executive directors, to review the structure, size and composition of the board at least annually to complement the issuer's corporate strategy.

The Company has not set up a nomination committee as required. The Board considers that it should be the responsibility of the full Board to review these matters and make decisions from time to time. The Board has already set out the criteria for selection of a Director under its internal policy. According to the Bye-laws of the Company, any newly appointed Directors are required to offer themselves for re-election at the next general meeting. Furthermore, in order to ensure a right candidate to be selected to serve the Board effectively, all shareholders have the right to nominate a Director and are encouraged to vote at re-election of the Director held at the annual general meetings ("**AGM**").

iii. Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the AGM.

Due to another business engagement, the Chairman did not attend the 2014 AGM. An Executive Director took the chair of the 2014 AGM and answered questions raised from the shareholders. The AGM provides a channel for communication between the Board and the shareholders. Chairman of the Audit and Remuneration Committees of the Company was also present and available to answer questions at the 2014 AGM. Other than the AGM, the shareholders may communicate with the Company through the contact information listed on the Company's website.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own Code for Securities Transactions by Directors (the "**Code**"), which are on terms no less exacting than those set out in the Model Code. The Code is sent to each Director on his/her initial appointment and from time to time when the same is amended or restated.

The Company has also established written guidelines (the "**Employees' Guidelines**") on terms no less exacting than the Model Code for securities transactions by relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company. To date, no incident of non-compliance of the Employees' Guidelines by the employees has been noted by the Company.

To enhance corporate governance transparency, the Code and the Employees' Guidelines have been published on the Company's website at www.mongolia-energy.com.

During the period of sixty days immediately preceding and including the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to and including the publication date of the annual results, all the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

During the period of thirty days immediately preceding and including the publication date of the half year results or, if shorter, the period from the end of the relevant quarterly or half year period up to and including the publication date of the results, all the Directors and relevant employees are restricted to deal in the securities and derivatives of the Company until such results have been published.

Company Secretary and the Legal and Compliance Department will send reminders prior to the commencement of such period to all the Directors and relevant employees respectively.

It is stipulated under the Code and/or the Employees' Guidelines that all dealings of the Company's securities must be conducted in accordance with the provisions stated therein. Under the Code, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the Chairman himself, he must notify the designated Director and receive a dated written acknowledgement before any dealing.

The Directors are required to confirm in writing that they have complied with the required standards set out in the Model Code and the Code throughout the Financial Period. The Company has made specific enquiry to ask the Directors for this purpose and no non-compliance of the Model Code and the Code has been noted.

HUMAN RESOURCES

As at 30 September 2014, the Group employed 453 full time employees in Hong Kong, Mongolia, and the PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from the retirement schemes, year-end bonus, and share options are awarded to the employees according to the performance of the Group, assessment of the individual's performance, and industry practice. Appropriate training programs are also offered for staff training and development.

AUDIT COMMITTEE

The Audit Committee has three members, all of whom are independent non-executive Directors. Mr. Lau Wai Piu is the chairman of the Audit Committee. He has appropriate professional qualifications, accounting and related financial management expertise.

The Audit Committee has reviewed the unaudited interim financial information of the Group for the six months ended 30 September 2014 in conjunction with Deloitte Touche Tohmatsu ("**Deloitte**"), the Company's independent auditor. Such review does not constitute an audit on the basis of review conducted by Deloitte. The review report issued by Deloitte will be set out in the interim report of the Company.

DIRECTORS

During the Financial Period and up to the date of this Report, the Board comprises the following members:

Executive Directors

Mr. Lo Lin Shing, Simon *(Chairman)*
Ms. Yvette Ong *(Managing Director)*

Non-executive Director

Mr. To Hin Tsun, Gerald

Independent Non-executive Directors

Mr. Peter Pun *OBE, JP*
Mr. Tsui Hing Chuen, William *JP*
Mr. Lau Wai Piu

Report on Review of Interim Financial Information

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF MONGOLIA ENERGY CORPORATION LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Mongolia Energy Corporation Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 27 to 56, which comprise the condensed consolidated statement of financial position as of 30 September 2014 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company (the "**Directors**") are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("**HKSRE 2410**") issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Report on Review of Interim Financial Information *(Continued)*

Emphasis of Matters

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 September 2013 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

We further draw attention to Notes 1 and 10 to the condensed consolidated financial statements.

As disclosed in Note 10 to the condensed consolidated financial statements, the Group owns a number of mining concessions in Western Mongolia for coal mining, four of which the Mineral Resources Authority of Mongolia has notified the Group are within the area designated as land where mineral exploration and mining are prohibited under the Mining Prohibition Law (the "**MPL**") and the Group owns a number of mining concessions in Western Mongolia, which are also within the designated areas prohibited under the MPL. According to the MPL, the affected licence holders, including the Group, are to be compensated but details of the compensation are not currently available. If any of these mining concessions is revoked due to the MPL and the compensation received by the Group is significantly less than the carrying amounts of these concessions, the Group might incur a significant impairment loss on the related assets. The Directors have concluded that, other than the accumulated impairment losses recognised, no impairment that results from the MPL are required to be recognised in the condensed consolidated financial statements.

In addition, we draw attention to Note 1 to the condensed consolidated financial statements which indicate that as at 30 September 2014, the Group's current liabilities exceeded its current assets by approximately HK$4,513.4 million. The Group's ability to continue as a going concern is dependent on the ongoing availability of finance to the Group, including from a substantial shareholder who is also the chairman and a director of the Company. If the finance is not available, the Group would be unable to meet its financial obligations as and when they fall due. This condition indicates the existence of a material uncertainly which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 November 2014

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 September 2014

	Notes	Six months ended 30 September 2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
Revenue	3	**–**	498
Cost of sales		**–**	(498)
Gross loss		**–**	–
Other income		**894**	68
Other gains and losses	4	**(8,224)**	26,166
Other expenses		**(31,585)**	(24,557)
Administrative expenses		**(65,608)**	(107,717)
Fair value gain on derivative component of convertible notes		**20,114**	16,709
Impairment loss on exploration and evaluation assets	11	**(287,999)**	–
Impairment loss on amounts due from associates		**(4)**	(5,695)
Finance costs	5	**(85,355)**	(236,868)
Loss before taxation	7	**(457,767)**	(331,894)
Income tax expense	6	**–**	–
Loss for the period		**(457,767)**	(331,894)
Loss for the period attributable to owners of the Company		**(457,767)**	(331,894)
Loss per share attributable to owners of the Company	9		(Restated)
– basic and diluted loss per share (HK cents)		**(27.10)**	(19.65)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss for the period	**(457,767)**	(331,894)
Other comprehensive income (expense)		
Items that may be subsequently reclassified to profit or loss:		
– Exchange differences on translation of financial statements of foreign operations	**8,122**	(1,502)
Total comprehensive expense for the period	**(449,645)**	(333,396)

Condensed Consolidated Statement of Financial Position

As at 30 September 2014

	Notes	30 September 2014 HK$'000 (unaudited)	31 March 2014 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	10	**6,819,376**	6,733,169
Investment property	10	**–**	–
Intangible assets	10	**838,803**	852,792
Development in progress	10	**29,468**	29,468
Exploration and evaluation assets	11	**–**	285,676
Interests in associates		**–**	–
Available-for-sale financial asset		**–**	–
Other asset		**1,150**	1,150
Prepayments for exploration and evaluation expenditure		**–**	10,458
Prepaid lease payment		**15,805**	15,651
		7,704,602	7,928,364
Current assets			
Prepaid lease payment		**329**	–
Inventories	12	**776**	491
Other receivables, prepayments and deposits	13	**41,497**	22,459
Held-for-trading investments		**59,866**	56,278
Amounts due from associates		**–**	–
Cash and cash equivalents		**44,326**	48,566
		146,794	127,794

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 September 2014

	Notes	30 September 2014 HK$'000 (unaudited)	31 March 2014 HK$'000 (audited)
Current liabilities			
Trade payables	14	**89,364**	68,136
Other payables and accruals		**155,484**	306,572
Convertible notes and other financial liability	15	**3,452,047**	3,260,528
Advances from a Director	20(a)	**963,348**	780,210
		4,660,243	4,415,446
Net current liabilities		**(4,513,449)**	(4,287,652)
Total assets less current liabilities		**3,191,153**	3,640,712
Non-current liability			
Deferred income		**12,751**	12,665
Net assets		**3,178,402**	3,628,047
Financed by:			
Capital and reserves			
Share capital	16	**135,131**	135,131
Reserves		**3,043,271**	3,492,916
Equity attributable to owners of the Company		**3,178,402**	3,628,047

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2014

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2013 (audited)	135,131	13,107,506	199,594	62,037	(21,352)	(8,836,814)	4,646,102
Comprehensive expense							
Loss for the period	–	–	–	–	–	(331,894)	(331,894)
Other comprehensive expense							
Exchange differences arising on translation	–	–	–	–	(1,502)	–	(1,502)
Total comprehensive expense for the period	–	–	–	–	(1,502)	(331,894)	(333,396)
Recognition of equity-settled share-based payments	–	–	–	13,418	–	–	13,418
Balance at 30 September 2013 (unaudited)	135,131	13,107,506	199,594	75,455	(22,854)	(9,168,708)	4,326,124
At 1 April 2014 (audited)	**135,131**	**13,107,506**	**199,594**	**59,198**	**(14,701)**	**(9,858,681)**	**3,628,047**
Comprehensive expense							
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(457,767)**	**(457,767)**
Other comprehensive income							
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**8,122**	**–**	**8,122**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**8,122**	**(457,767)**	**(449,645)**
Share options lapsed	**–**	**–**	**–**	**(15,999)**	**–**	**15,999**	**–**
Balance at 30 September 2014 (unaudited)	**135,131**	**13,107,506**	**199,594**	**43,199**	**(6,579)**	**(10,300,449)**	**3,178,402**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(54,296)**	(122,878)
Net cash (used in) from investing activities:		
Purchase of property, plant and equipment	**(99,893)**	(68,010)
Purchase of prepaid lease payment	**(377)**	(15,914)
Proceeds received from disposal of investment property	**–**	128,543
Other investing cash flows	**(1,189)**	(395)
	(101,459)	44,224
Net cash from financing activities:		
Advances from a Director	**151,607**	151,300
Repayment of advances from a Director	**–**	(25,320)
Repayment of other financial liability	**–**	(50,000)
Interest paid	**–**	(2,294)
	151,607	73,686
Net decrease in cash and cash equivalents	**(4,148)**	(4,968)
Cash and cash equivalents at beginning of the period	**48,566**	51,578
Effect of foreign exchange rate changes	**(92)**	(315)
Cash and cash equivalents at end of the period	**44,326**	46,295

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "**Interim Financial Reporting**" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Company and its subsidiaries (collectively referred to as the "**Group**"). As at 30 September 2014, the Group had net current liabilities of approximately HK$4,513.4 million and incurred a loss of approximately HK$457.8 million for the six months then ended.

The Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future giving that: (1) Mr. Lo Lin Shing, Simon ("**Mr. Lo**"), a substantial shareholder who has significant influence over the Group and the chairman of the Company, has provided facilities amounting to HK$1,900 million with maturity date on 31 March 2016, of which approximately HK$936.7 million was unutilised as at 30 September 2014; and (2) the Company has reached an acceptable debt restructuring with the holders of the convertible notes and other loan provider of the Company (collectively "**Existing Lenders**"). As disclosed in Note 15, on 19 September 2014, the Company entered into subscription agreements with the Existing Lenders pursuant to which the Company conditionally agreed to issue and the Existing Lenders conditionally agreed to subscribe for new 5-year 3% convertible notes. The subscription will be used by the Company for full settlement of the outstanding principal amount and any outstanding accrued interest of the expired convertible notes and for early redemption of the principal amount and accrued interest of the unexpired convertible notes as well as the loan included in other financial liability at the completion date (the "**2014 Subscriptions**"). The completion of the 2014 Subscriptions is subject to fulfilment of certain conditions including approval from shareholders of the Company who are not involved or interested in the 2014 Subscriptions (the "**Independent Shareholders**"). The subscription agreements became unconditional upon approval by the Independent Shareholders on 12 November 2014. The 2014 Subscriptions, amounting to HK$3,467.0 million, were completed on 21 November 2014. Upon the completion of the 2014 Subscriptions, all outstanding principal amounts and accrued interests of the 3.5% GI Convertible Note included in other financial liability, the 3% CTF Convertible Note, the 3.5% OZ Convertible Note, the existing 5% CTF Convertible Note and the existing 5% GI Convertible Note (as defined in Note 15) were derecognised. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA:

HKFRS 10, HKFRS 12 and HKAS27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amount reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the energy and related resources business. Revenue represents revenue arising on the sale of coking coal to external customers.

The Group's operating activities are focusing on the coal mining business. This operating segment has been identified on the basis of information reported to the chief operating decision maker (i.e. the executive Directors) for the purpose of resource allocation and performance assessment.

Segment revenue and result

The following is an analysis of the Group's revenue and result by operating segment:

For the six months ended 30 September 2014

	Coal mining HK$'000	Total HK$'000
Segment revenue	**–**	**–**
Segment loss	**(86,173)**	**(86,173)**
Unallocated expenses *(Note)*		**(24,361)**
Other income		**4**
Other gains and losses		**3,750**
Fair value gain on derivative component of convertible notes		**20,114**
Impairment loss on exploration and evaluation assets		**(285,742)**
Impairment loss on amount due from an associate		**(4)**
Finance costs		**(85,355)**
Loss before taxation		**(457,767)**

Note:

Unallocated expenses mainly included staff costs for corporate office, office rental and legal and professional fees.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 September 2013

	Coal mining HK$'000	Total HK$'000
Segment revenue	498	498
Segment loss	(88,254)	(88,254)
Unallocated expenses *(Note)*		(44,899)
Other income		29
Other gains and losses		27,084
Fair value gain on derivative component of convertible notes		16,709
Impairment loss on amounts due from associates		(5,695)
Finance costs		(236,868)
Loss before taxation		(331,894)

Note:

Unallocated expenses mainly included staff costs for corporate office, office rental and legal and professional fees.

The following is an analysis of the Group's assets by operating segment:

	30 September 2014 HK$'000	31 March 2014 HK$'000
Coal mining	**7,778,036**	7,702,022

4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Fair value gain on held-for-trading investments	**3,588**	25,734
Loss on write off of property, plant and equipment	**(6,674)**	–
Net exchange (loss) gain	**(4,748)**	432
Others	**(390)**	–
	(8,224)	26,166

5. FINANCE COSTS

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Interest on:		
– Advances from a Director *(Note 20(a))*	**31,531**	20,916
– Convertible notes after remeasurement	**48,346**	–
– Other financial liability	**5,478**	1,482
Effective interest expense on convertible notes	**–**	214,470
	85,355	236,868

6. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% at the estimated assessable profit (if any) for both periods.

Mongolian corporate income tax is calculated at 10% at the estimated assessable profit (if any) for both periods.

The Company is not subject to any taxation in Bermuda. Bermuda levies no tax on the income of the Group.

No provision for Hong Kong and overseas taxation has been made for both periods as the Group has no assessable profit for either period.

7. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Six months ended 30 September	
	2014 **HK$'000**	2013 HK$'000
Amortisation of intangible assets	**15,450**	15,962
Depreciation of property, plant and equipment	**10,559**	11,692
Less: loss on suspension of production (included in other expenses)	**(18,322)**	(24,043)
	7,687	3,611
Cost of inventories	**–**	498
Employee benefit expenses, including Directors' emoluments	**27,746**	39,874
Operating lease rentals in respect of land and buildings	**3,812**	6,619

8. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period (2013: Nil). The Directors do not recommend the payment of an interim dividend.

9. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	Six months ended 30 September	
	2014	2013
	HK$'000	HK$'000
Loss attributable to owners of the Company, as used in the calculation of basic and diluted loss per share	**(457,767)**	(331,894)

	Six months ended 30 September	
	2014	2013
	'000	'000
		(Restated)
Number of shares		
Number of ordinary shares in issue for the calculation of basic and diluted loss per share	**1,689,137**	1,689,137

Note:

The number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted for the consolidation of shares which forms part of the capital reorganisation exercise and became effective on 13 November 2014 (see Note 21(a)).

The computation of diluted loss per share for both periods does not assume the exercise of share options or the conversion of the Company's outstanding convertible notes since their assumed exercise or conversion would result in a decrease in loss per share.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, INTANGIBLE ASSETS AND DEVELOPMENT IN PROGRESS

Property, Plant and Equipment

During the six months ended 30 September 2014, the Group spent approximately HK$52,197,000 (2013: HK$2,929,000), HK$37,959,000 (2013: HK$68,321,000), HK$4,719,000 (2013: HK$1,375,000) and HK$4,131,000 (2013: HK$1,768,000) on mining structures, construction in progress, plant, machinery and other equipment and motor vehicles respectively.

During the six months ended 30 September 2014, HK$47,317,000 (2013: HK$1,363,000) construction in progress was completed and HK$9,320,000 (2013: Nil) and HK$37,997,000 (2013: HK$1,363,000) were reclassified as mining structures and plant, machinery and other equipment respectively.

Investment Property

During the six months ended 30 September 2013, the Group disposed of the investment property located in Beijing, the People's Republic of China (the "**PRC**") to an independent third party.

Intangible Assets

The intangible assets consist of software and exclusive right of use of the paved road.

There are no significant capital expenditures spent in the intangible assets for the six months ended 30 September 2014 (2013: Nil).

Development in Progress

In connection to the exclusive right of use of paved road set out in above intangible assets, another section of the road of approximately 30 km is under construction and therefore remains as a development in progress and included in the cash generating unit with other Khushuut Related Assets (as defined below) for impairment assessment purpose.

There is no addition of development in progress for the six months ended 30 September 2014 (2013: Nil).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, INTANGIBLE ASSETS AND DEVELOPMENT IN PROGRESS

(Continued)

Impairment Loss Recognised on Khushuut Related Assets

The commercial production of Khushuut Coal Mine in Western Mongolia halted since October 2012 due to the dispute with the former sole mining contractor as disclosed in Note 18 and the relevant mining services agreement had been terminated. During the six months ended 30 September 2014, the Group has entered into mining services agreements with two newly appointed mining contractors to provide topsoil and overburden removal services and coal extraction services for the Khushuut Coal Mine. Trial production has been started in September 2014.

At the end of the reporting period, the Group engaged an independent qualified professional valuer (the "**Independent Valuer**"), who is not connected with the Group, to determine the recoverable amount of its property, plant and equipment, intangible assets and development in progress related to the Khushuut mine operations (collectively referred to as "**Khushuut Related Assets**"). For the purposes of impairment testing, the Khushuut Related Assets are treated as a cash generating unit, which represents the Group's coking coal mining operation in Western Mongolia. The recoverable amount of the Khushuut Related Assets has been determined based on a value in use calculation. The Directors instructed the Independent Valuer to use the information and assumptions provided by the newly appointed mining contractor, including cost structure and production capacity of the Khushuut Related Assets. In pursuant to the impairment review, no further impairment is required during the current interim period.

Mining Prohibition Law in Mongolia

On 16 July 2009, the Parliament of Mongolia enacted the Mining Prohibition Law (the "**MPL**") which prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas and areas adjacent to rivers and lakes (the "**Defined Prohibited Areas**"). Pursuant to the MPL, the Mongolian government was supposed to define the boundaries of the relevant prohibited areas by 16 October 2009 but it had not done so by the prescribed time. It also states that any previously granted licences that overlap the Defined Prohibited Areas will be terminated within five months following the enactment of the law.

The MPL further states that affected licence holders shall be compensated but details as to how the compensation is determined have not been specified in the MPL and the Mongolian government has not yet released any further guidance on how to interpret the MPL. The Mineral Resources Authority of Mongolia (the "**MRAM**") has provided a list of licences that overlap with the Defined Prohibited Areas under the MPL.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY, INTANGIBLE ASSETS AND DEVELOPMENT IN PROGRESS *(Continued)*

Mining Prohibition Law in Mongolia *(Continued)*

As at 30 September 2014, four mining concessions (licence nos. 2913A, 4322A, 11888A and 15289A) owned by MoEnCo LLC ("**MoEnCo**"), a wholly-owned subsidiary of the Company, have overlapping areas described under the MPL, where mineral exploration and mining are prohibited. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was also no revocation of these licences as at 30 September 2014. The management also considers that even if the licences were revoked due to the MPL, the Mongolian government would pay a reasonable compensation to the Group.

Hence, the management concluded that there is no further impairment, other than those provided in relation to Khushuut Related Assets as at 31 March 2014. The implementation of the MPL represents a significant uncertainty to the Group, which might have a significant effect on the condensed consolidated financial statements of the Group. If the Group's affected mining concessions were revoked due to the MPL and the compensation received by the Group was significantly less than the carrying amount of the related assets, the Group would incur a significant impairment loss on the related assets.

11. EXPLORATION AND EVALUATION ASSETS

	Mining and Exploration Rights *(Note a)* HK$'000	Others *(Note b)* HK$'000	Total HK$'000
COST			
At 1 April 2013	285,676	7,014	292,690
Additions	–	5,616	5,616
Written off	–	(12,630)	(12,630)
At 31 March 2014	**285,676**	**–**	**285,676**
Additions	**–**	**2,323**	**2,323**
Impairment loss recognised in profit or loss	**(285,676)**	**(2,323)**	**(287,999)**
At 30 September 2014	**–**	**–**	**–**

Notes:

(a) *The balance of mining and exploration rights as at 30 September 2014 solely represents an exploration concession of around 2,986 hectares in Western Mongolia for ferrous resources. This iron ore exploration concession might be affected by the MPL under the preliminary list. Zvezdametrika LLC ("**Z LLC**"), a wholly-owned subsidiary of the Company which owns the iron ore exploration concession, received a notice from the MRAM during the year ended 31 March 2010 about the potential revocation of its exploration concession under the MPL and Z LLC was requested to submit the estimated compensation for termination of licences with supporting documents. After taking legal advice from the Group's Mongolian legal advisers, the Group decided not to respond to the MRAM's request. The Group's legal advisers have confirmed that their interpretation of the relevant legislation is that, following determination and removal of any overlap with prohibited areas and making revisions to the coordinates of the licensed area, the mineral licence will remain valid less the overlapping areas. The Group is not currently operating within what it considers to be the overlapping areas. According to the best knowledge of the management, there was no revocation of its licences as at 30 September 2014.*

11. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Notes: (Continued)

As at 30 September, 2014, only limited exploration works have been done on the iron ore concession. During the six months ended 30 September 2014, the condition of the iron ore market in China has become considerably more unfavourable due to the significant drop in iron ore prices and the continuing fall in demand. In view of the present market sentiment, the development and production costs are expected to be high which will unlikely to achieve a positive return for the Group. Further, the exploration and the ongoing development of the iron mine would require additional capital by the Group and increase the Group's financial pressure in addition to the need for its coal mining business. Based on the aforesaid, the management is of the view that it is not in the Group's interest to develop and retain the iron mine and has decided to concentrate the Group's resources on the re-commencement of commercial production of the Khushuut Coal Mine. In view of the present pessimistic business outlook of the iron ore industry and the significant capital investment required to develop the iron ore concession, the management of the Group is of the opinion that it is likely to be difficult to identify a potential purchaser to acquire the iron ore concession in its current condition (also taking in account the uncertainties of the application of the MPL to the concession), before the exploration licence expires in October 2015. Also, based on the research performed by management during the current interim period, there are minimal transactions in the market in Mongolia for iron ore concessions due to the fact that current market conditions are making it uneconomic for market participants to invest in smaller iron ore concessions (in particular those in more remote regions without established infrastructure). The management has therefore determined that the recoverable amount of this iron ore exploration concession is likely to be minimal and has decided that the entire carrying amount was impaired during the six months ended 30 September 2014. Management has further decided that it is not appropriate to recognise any potential compensation that may ultimately arise from the application by the Mongolian government of the MPL.

(b) Others represent the geological and geophysical costs, drilling and exploration expenses incurred for concessions other than the iron ore exploration concession set out in (a) above.

As at 30 September 2014, the Group confirmed with the Ministry of Environment and Green Department of Mongolia that 2 exploration/mining concessions are overlapping with the forest areas or water basin protection zones and therefore might potentially be affected by the MPL (At 31 March 2014: 2). However, the management considers this would not have a significant financial impact to the Group.

(c) Exploration and mining licences are granted for an initial period of 3 and 30 years respectively. The exploration licences can be extended for three successive periods of 3 years each and mining licences for two successive periods of 20 years each. During the six months ended 30 September 2014, the Group has written off all costs related to the exploration and mining licences including those mentioned in (b) above as the management considers that the respective exploration licences are no longer fruitful. As a result, the corresponding evaluation and exploration assets are written off.

12. INVENTORIES

The amount represented materials and supplies at the period/year end.

13. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 September 2014 HK$'000	31 March 2014 HK$'000
Other receivables	**4,407**	4,152
Prepayments	**30,945**	12,025
Deposits	**2,901**	2,727
Others	**3,244**	3,555
	41,497	22,459

14. TRADE PAYABLES

The aged analysis of trade payables presented based on invoice date at the end of reporting period is as follows:

	30 September 2014 HK$'000	31 March 2014 HK$'000
0 to 30 days	**22,803**	14,642
31 to 60 days	**851**	806
61 to 90 days	**–**	–
Over 90 days	**65,710**	52,688
	89,364	68,136

15. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY

	30 September 2014 HK$'000	31 March 2014 HK$'000
Convertible notes		
– not yet expired *(Note a)*	**434,421**	2,454,535
– expired with extension *(Note b)*	**2,695,515**	489,360
Other financial liability *(Note c)*	**322,111**	316,633
	3,452,047	3,260,528

(a) Convertible notes not yet expired

The movement of the debt and derivative components of convertible notes for the period/year is set out below:

	Debt component		**Derivative component**		**Total**	
	30 September 2014 HK$'000	31 March 2014 HK$'000	**30 September 2014 HK$'000**	31 March 2014 HK$'000	**30 September 2014 HK$'000**	31 March 2014 HK$'000
At beginning of the period/year	**2,400,116**	2,851,129	**54,419**	96,811	**2,454,535**	2,947,940
Interest charge	**22,730**	264,716	**–**	–	**22,730**	264,716
Interest payable included in other payable	**(10,072)**	(145,151)	**–**	–	**(10,072)**	(145,151)
Amortisation of transaction cost	**–**	3,233	**–**	–	**–**	3,233
Fair value gain on derivative component	**–**	–	**(20,114)**	(42,392)	**(20,114)**	(42,392)
Reclassified	**(2,012,658)**	(793,638)	**–**	–	**(2,012,658)**	(793,638)
Loss on remeasurement of the debt component	**–**	219,827	**–**	–	**–**	219,827
At end of the period/year	**400,116**	2,400,116	**34,305**	54,419	**434,421**	2,454,535

15. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY *(Continued)*

(a) Convertible notes not yet expired *(Continued)*

Analysed for reporting purposes as:

	30 September 2014 HK$'000	31 March 2014 HK$'000
Current liabilities *(Note)*	**434,421**	2,454,535
Non-current liabilities	**–**	–
	434,421	2,454,535

Note:

*In November 2013, as the Company defaulted on the redemption of certain convertible notes on the maturity date which triggered the Company's potential early redemption obligation under all other existing convertible notes, the liabilities relating to the HK$200 million 5% convertible note issued to Golden Infinity Co., Ltd. ("**Golden Infinity**") (the "**5% GI Convertible Note**") and HK$200 million 5% convertible note issued to Chow Tai Fook Nominee Limited ("**CTF**") (the "**5% CTF Convertible Note**") and HK$2 billion 3% convertible note issued to CTF (the "**3% CTF Convertible Note**") have been reclassified as current liabilities during the year ended 31 March 2014.*

5% GI Convertible Note and 5% CTF Convertible Note with maturity date 8 January 2016

Binomial Valuation Model is used for valuation of the derivative component. The major inputs into the model were as follows:

	30 September 2014	31 March 2014
Stock price	**HK$0.17**	HK$0.22
Exercise price	**HK$0.36**	HK$0.36
Volatility *(Note)*	**84.53%**	72.77%
Dividend yield	**0%**	0%
Option life	**1.25 years**	1.75 years
Risk free rate	**0.21%**	0.39%

Note:

The volatility used in the model was determined by using the historical volatility of the Company's share price.

15. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY *(Continued)*

(b) Convertible notes expired with extension

3% CTF Convertible Note with maturity date 16 June 2014

During the six months ended 30 September 2014, the 3% CTF Convertible Note expired on 16 June 2014 and the Company had not redeemed the principal and repaid the interest thereon on its maturity, therefore, the Company was in breach of the redemption requirement under the 3% CTF Convertible Note. CTF had agreed to grant the Company a moratorium on repayment of the outstanding principal and interest under the expired note from 16 June 2014 to 12 August 2014 ("**Moratorium Period**") and the Moratorium Period had been further extended to 19 September 2014. As at 30 September 2014, the 3% CTF Convertible Note with carrying amount of HK$2.2 billion was unsecured and carried interest at a coupon rate of 3%.

Binomial Valuation Model was used for valuation of the derivative component. The major inputs into the model were as follows:

	31 March 2014
Stock price	HK$0.22
Exercise price	HK$2.00
Volatility *(Note)*	110%
Dividend yield	0%
Option life	0.21 years
Risk free rate	0.13%

3.5% convertible note with maturity date 12 November 2013

The 3.5% convertible notes with principal amount in aggregate of HK$466.8 million (the "**3.5% OZ Convertible Note**") was due on 12 November 2013 and its repayment date was extended to a period of six months until 12 May 2014 with a fixed interest rate of 3.5% per annum. The repayment date of the 3.5% OZ Convertible Note is further extended to 19 September 2014.

(c) Other financial liability

As at 30 September 2014, the amount represents the 3.5% convertible note to Golden Infinity with a principal value of HK$300 million (the "**3.5% GI Convertible Note**") which was reclassified from convertible notes to other financial liability on its maturity during the year ended 31 March 2014. The loan is unsecured and bears interest at fixed rate of 3.5%.

15. CONVERTIBLE NOTES AND OTHER FINANCIAL LIABILITY *(Continued)*

On 19 September 2014, the Company entered into the subscription agreements with CTF, Golden Infinity and the holders of the 3.5% OZ Convertible Note, who conditionally agreed to subscribe for new 5-year 3% convertible notes at the subscription price which would be used for full settlement of the outstanding principal amount and accrued interest of the 3.5% GI Convertible Note included in the other financial liability, the 3% CTF Convertible Note, the 3.5% OZ Convertible Note and for early redemption of the outstanding principal amount and accrued interest of the existing 5% CTF Convertible Note and the existing 5% GI Convertible Note, subject to fulfilment of certain conditions including approval from Independent Shareholders. The subscription agreements became unconditional upon approval by the Independent Shareholders on 12 November 2014. The 2014 Subscriptions, amounting to HK$3,467.0 million, were completed on 21 November 2014.

16. SHARE CAPITAL

Authorised and issued share capital

	30 September 2014 HK$'000	31 March 2014 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.02 each	**300,000**	300,000

	Number of ordinary shares at HK$0.02 each	**Amount** HK$'000
Issued and fully paid		
At 1 April 2014 and 30 September 2014	6,756,547,828	135,131

17. CAPITAL COMMITMENTS

As at 30 September 2014, the Group had capital commitments contracted for but not provided for in the condensed consolidated financial statements amounting to approximately HK$94,792,000 (At 31 March 2014: HK$100,083,000). These commitments are for the following projects:

	30 September 2014 HK$'000	31 March 2014 HK$'000
Dry processing	**1,860**	4,065
Mining operation/Exploration drilling	**24,105**	24,105
Other exploration related commitments	**5,423**	277
Purchase of property, plant and equipment	**12,644**	7,539
Road construction and maintenance	**13,780**	14,115
Road improvement and drilling equipment transport	**11,968**	11,968
Wash plant	**24,686**	37,521
Others	**326**	493
	94,792	100,083

18. CONTINGENT LIABILITIES

During the year ended 31 March 2013, the Company and MoEnCo have disputed about the scope of services provided by the former sole mining contractor and disagreed on the amount charged and the quality of services provided under the former mining contract and accordingly, refused to settle the contractor fees as claimed by the former sole mining contractor.

The former sole mining contractor issued two writ of summons on 14 February 2013 and 30 May 2013 claiming for the total sum of approximately HK$93.7 million of which approximately HK$50.0 million (2013: HK$50.0 million) has been provided for in the condensed consolidated financial statements as at 30 September 2014. Based on the opinion provided by legal counsel of the Company, the Directors consider that the payment of the remaining balance is not probable. During the six months ended 30 September 2014 and up to the date of this report, apart from the former sole mining contractor's intention to proceed, there was no development.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's held-for-trading investments and embedded derivative component of convertible notes are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical asset or liability.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Financial assets/ financial liabilities	Fair value as at 30 September 2014	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Listed equity securities classified as held-for-trading investments	Listed equity securities: HK$59,866,000 (31 March 2014: HK$56,278,000)	Level 1	– Quoted bid prices in an active market	N/A	N/A
2) Embedded derivative component of convertible notes	HK$34,305,000 (31 March 2014: HK$ 54,419,000)	Level 3	– Binomial Valuation Model – The key inputs are share price, exercise price, time to maturity, risk free rate, volatility and dividend yield	– Volatility is 84.53% (31 March 2014: ranging from 73% to 110%)	– A slight increase in the volatility would result in significant higher fair value measurement, and vice versa *(Note)*

There was no transfer between all Levels in both periods.

Note:

If the volatility of listed share prices of the Company had been 5% (2013: 5%) higher/lower and all other input variables of the valuation model were held constant, the Group's loss for the period would increase by HK$2,986,000 (2013: HK$357,000)/ decrease by HK$2,892,000 (2013: HK$363,000), as a result of changes in fair value of the derivative component of the convertible notes.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements of financial liabilities

	Embedded derivatives component of convertible notes HK$'000
At 1 April 2013	96,811
Fair value gain recognised in profit or loss	(42,392)
At 31 March 2014	54,419
Fair value gain recognised in profit or loss	(20,114)
At 30 September 2014	**(34,305)**

The fair value gain recognised for the period included in profit or loss relates to the embedded derivative component of convertible notes held at the end of the current reporting period.

In estimating the fair value of the Group's embedded derivative component of convertible notes, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuations at the end of each reporting period. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs to the valuation model. Where there is a material change in the fair value of the assets or liabilities, the cause of fluctuations will be reported to the Directors.

20. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the condensed consolidated financial statements, significant related party transactions are as follows:

(a) Advances from Mr. Lo

	30 September 2014 HK$'000	31 March 2014 HK$'000
Balance of advances *(Note)*	**963,348**	780,210

	Six months ended 30 September 2014 HK$'000	Six months ended 30 September 2013 HK$'000
Interest charge for the period	**31,531**	20,916

Note:

The advances are related to the facility granted from Mr. Lo as set out in Note 1. The amounts are unsecured and repayable on demand. The interest expense was charged at the Hong Kong Prime Rate plus 3% (2013: Prime Rate plus 3%).

(b) Other loan payable to and interest charge on convertible notes and loan by a related party – Golden Infinity

	30 September 2014 HK$'000	31 March 2014 HK$'000
Convertible note	**227,267**	227,267
Other loan (included in other financial liability)	**322,111**	316,633

20. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other loan payable to and interest charge on convertible notes and loan by a related party – Golden Infinity *(Continued)*

	Six months ended 30 September 2014 HK$000	Six months ended 30 September 2013 HK$000
Interest charge on convertible note for the period	**5,014**	9,574
Interest charge on other loan for the period	**5,478**	715

Note:

Mr. Lo has a controlling interest of Golden Infinity. Details of the 3.5% GI Convertible Note, 5% GI Convertible Note and other loan due to Golden Infinity are set out in Note 15.

(c) Key management compensation

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 September 2014 HK$'000	Six months ended 30 September 2013 HK$'000
Basic salaries, other allowances and benefits in kind	**2,876**	2,675
Equity-settled share-based payments *(Note)*	**–**	4,440
Contributions to Mandatory Provident Fund Scheme	**9**	8
	2,885	7,123

Note:

During the six months ended 30 September 2014, no share options were granted to the Group's key management (2013: 22,000,000 share options).

21. SUBSEQUENT EVENTS

The following events took place subsequent to 30 September 2014:

(a) On 19 September 2014, the board of the Directors proposed to put forward to the shareholders the capital reorganisation comprising (1) the share consolidation whereby every four issued existing shares of par value of HK$0.02 each would be consolidated into one consolidated share of par value of HK$0.08 each. ("**Share Consolidation**"); (2) the reduction of the par value of the issued consolidated shares from HK$0.08 each to HK$0.02 each by cancelling the paid-up capital to the extent of HK$0.06 on each issued consolidated share (the "**Capital Reduction**"); (3) the cancellation of the entire amount standing to the credit of the share premium account of the Company (the "**Share Premium Reduction**"); and (4) the transfer of the credit arising from the Capital Reduction and the Share Premium Reduction to the accumulated losses of the Company (collectively the "**Capital Reorganisation**"). The Capital Reorganisation became effective on 13 November 2014. Accordingly, the computation of loss per share in Note 9 has been adjusted for the Share Consolidation for both periods.

(b) As mentioned in Note 1, the Company had reached an acceptable debt restructuring with the Existing Lenders and entered into the 2014 Subscriptions. The 2014 Subscriptions were completed on 21 November 2014. Details of the 2014 Subscriptions are set out in the announcement of the Company dated 19 September 2014 and the circular of the Company dated 24 October 2014.

The convertible notes issued by the Company on 21 November 2014 contain both debt and conversion option components. At the date of issue, both the debt and conversion option components are recognised at fair value. In subsequent periods, the debt component is carried at amortised cost using the effective interest method and the conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss. The Directors are in the process of assessing the potential financial impact of the transaction.